

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 000-32227

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P.
(Exact name of registrant as specified
in its Agreement of Limited Partnership)

Delaware
(State or other jurisdiction of
incorporation or organization)

39-1965590
(I.R.S. Employer
Identification No.)

Suite 400, 1004 Farnam Street, Omaha, Nebraska
(Address of principal executive offices)

68102
(Zip Code)

(402) 444-1630
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No X

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P.
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Part I. Financial Information

Item 1. Financial Statements

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	<u>September 30, 2003</u> (Unaudited)	<u>Dec. 31, 2002</u>
Assets		
Cash and cash equivalents	20,924,864	\$ 6,601,518
Restricted cash and cash equivalents	3,184,570	2,638,849
Investment in GNMA Certificates, at fair value	175,774	15,062,705
Investment in corporate equity securities, at fair value	5,005,079	4,533,816
Investment in Operating Partnerships	-	1,140,707
Investment in real estate, net of accumulated depreciation	104,807,383	102,264,969
Interest and dividends receivable	49,636	158,749
Other assets	4,792,979	4,318,491
	<u>138,940,285</u>	<u>\$ 136,719,804</u>
Liabilities and Partners' Capital		
Liabilities		
Accounts payable and accrued expenses	2,114,762	\$ 1,535,349
Distribution payable	1,201,500	1,115,678
Notes payable	3,080,086	3,499,008
Bonds and mortgages payable	61,291,131	54,515,595
Borrowings under repurchase agreements	11,975,000	21,475,000
Interest payable	179,218	260,292
	<u>79,841,697</u>	<u>82,400,922</u>
Partners' Capital		
General Partner	44,132	-
Unit holders (\$8.68 per Unit in 2003 and \$7.99 per Unit in 2002)	59,054,456	54,318,882
	<u>59,098,588</u>	<u>54,318,882</u>
Liabilities and Partners' Capital	<u>138,940,285</u>	<u>\$ 136,719,804</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	For the Three Months Ended Sept. 30, 2003	For the Three Months Ended Sept. 30, 2002	For the Nine Months Ended Sept. 30, 2003	For the Nine Months Ended Sept. 30, 2002
Income				
Rental income	\$ 4,921,856	\$ 4,237,050	\$ 14,587,322	\$ 12,109,035
Equity in earnings (losses) of Operating Partnership	(39,937)	(15,932)	(35,083)	(42,767)
Mortgage-backed securities income	147,532	329,983	755,149	993,705
Interest income on cash and cash equivalents	13,622	49,271	31,999	87,029
Dividend income	95,897	107,478	326,218	248,987
Other income	3,671	-	2,425	3,289
Equity in gain on sale of real estate in Operating Partnership	6,149,165	-	6,149,165	-
	<u>11,291,806</u>	<u>4,707,850</u>	<u>21,817,195</u>	<u>13,399,278</u>
Expenses				
Real estate operating expenses	2,647,967	2,291,605	7,465,299	6,103,439
Depreciation expense	992,323	811,920	2,888,259	2,317,657
Interest expense	668,417	753,590	2,058,091	1,913,447
Amortization expense	40,204	16,521	115,917	86,789
General and administrative expenses	419,420	362,970	1,271,919	1,172,951
	<u>4,768,331</u>	<u>4,236,606</u>	<u>13,799,485</u>	<u>11,594,283</u>
Net income	<u>6,523,475</u>	<u>471,244</u>	<u>8,017,710</u>	<u>1,804,995</u>
Other comprehensive income				
Unrealized gains on securities				
Net unrealized holding gains (losses) arising during the period	60,025	(242,888)	366,495	(210,776)
	<u>60,025</u>	<u>(242,888)</u>	<u>366,495</u>	<u>(210,776)</u>
Net comprehensive income	<u>\$ 6,583,500</u>	<u>\$ 228,356</u>	<u>\$ 8,384,205</u>	<u>\$ 1,594,219</u>
Net income allocated to:				
General Partner	\$ 65,235	\$ 4,712	\$ 80,177	\$ 18,050
Unit holders	6,458,240	466,532	7,937,533	1,786,945
	<u>\$ 6,523,475</u>	<u>\$ 471,244</u>	<u>\$ 8,017,710</u>	<u>\$ 1,804,995</u>
Net income, basic and diluted, per Unit	<u>\$ 0.95</u>	<u>\$ 0.07</u>	<u>\$ 1.17</u>	<u>\$ 0.26</u>
Weighted average number of Units outstanding, basic and diluted	<u>6,797,055</u>	<u>6,797,055</u>	<u>6,797,055</u>	<u>6,797,055</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003
(UNAUDITED)

	General Partner	Unit Holders		Total
		# of Units	Amount	
Partners' Capital (deficit) (excluding accumulated other comprehensive income)				
Balance at December 31, 2002	-	6,797,055	54,421,304	54,421,304
Net income	80,177	-	7,937,533	8,017,710
Cash distributions paid or accrued	<u>(36,045)</u>	-	<u>(3,568,454)</u>	<u>(3,604,499)</u>
Balance at September 30, 2003	<u>44,132</u>	<u>6,797,055</u>	<u>58,790,383</u>	<u>58,834,515</u>
Accumulated Other Comprehensive Income				
Balance at December 31, 2002	-	-	(102,422)	(102,422)
Unrealized gains on securities:				
Unrealized holding gains arising during the period	-	-	368,920	368,920
Less reclassification adjustment for gains included in net income	<u>-</u>	<u>-</u>	<u>(2,425)</u>	<u>(2,425)</u>
Balance at September 30, 2003	<u>-</u>	<u>-</u>	<u>264,073</u>	<u>264,073</u>
Balance at September 30, 2003	<u>\$ 44,132</u>	<u>6,797,055</u>	<u>\$ 59,054,456</u>	<u>\$ 59,098,588</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended <u>Sept. 30, 2003</u>	For the Nine Months Ended <u>Sept. 30, 2002</u>
Cash flows from operating activities		
Net income	\$ 8,017,710	\$ 1,804,995
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale of real estate in Operating Partnership	(6,149,165)	-
Equity in losses of Operating Partnership	35,083	42,767
Depreciation expense	2,888,259	2,317,657
Amortization expense	115,917	86,789
Other amortization	(979)	(859)
(Gain) loss on sale of securities	(2,425)	-
Transfers from restricted cash	(298,497)	(1,289,221)
Increase (decrease) in interest and dividends receivable	109,113	(46,001)
Increase (decrease) in other assets	(152,314)	499,077
Increase in accounts payable and accrued expenses	280,978	391,742
Decrease in interest payable	(81,074)	(45,489)
	<u>4,762,606</u>	<u>3,761,457</u>
Net cash provided by operating activities		
Cash flows from investing activities		
GNMA principal payments received	10,018,142	126,174
Proceeds from sale of corporate equity securities	1,372,351	-
Distribution from Operating Partnership	121,813	180,473
Proceeds from sale of real estate in Operating Partnership	7,132,976	-
Net cash acquired in (used in) Operating Partnerships general partners acquisition	(190,690)	1,120,224
Acquisition of investment in real estate and real estate improvements	(632,113)	(9,598,321)
Purchase of corporate equity securities	(1,465,889)	(2,274,026)
	<u>16,356,590</u>	<u>(10,445,476)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Principal payments on Notes payable	(418,922)	-
Principal payments on repurchase agreements	(9,500,000)	(16,475,000)
Principal payments on bonds and mortgages payable	(224,464)	(192,024)
Distributions paid	(3,518,677)	(3,261,345)
Debt financing costs paid	(133,787)	(1,313,536)
Proceeds from mortgage payable	7,000,000	
Borrowings under repurchase agreements	-	34,475,000
	<u>(6,795,850)</u>	<u>13,233,095</u>
Net cash provided by (used in) financing activities		
Net increase in cash and cash equivalents	14,323,346	6,549,076
Cash and cash equivalents at beginning of period	6,601,518	5,386,206
Cash and cash equivalents at end of period	<u>\$ 20,924,864</u>	<u>\$ 11,935,282</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$ 2,139,165</u>	<u>\$ 2,000,446</u>

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(UNAUDITED)

Supplemental disclosure of non-cash investing and financing activities:

On January 1, 2002, the Company acquired the general partner interests in eight of the Operating Partnerships. As a part of this transaction the Company recorded the following, including consolidation eliminations.

GNMA Certificates	(27,331,336)
Investment in Operating Partnerships	(21,684,463)
Investment in real estate	52,341,327
Interest and dividends receivable	(202,800)
Other assets	2,098,680
Accounts payable and accrued expenses	1,549,016
Bonds and mortgages payable	6,188,242
Interest payable	(41,510)

On March 26, 2002, the Company assumed bonds payable of \$8,865,000 in connection with the acquisition of investment in real estate (The Glades Apartments).

On May 1, 2003, the Company acquired the general partner interest of Water's Edge Apartments Operating Partnership. As a part of this transaction the Company recorded the following, including consolidation eliminations.

Restricted cash	247,224
GNMA Certificates	(4,860,963)
Other assets	304,304
Accounts payable and accrued expenses	298,435

The accompanying notes are an integral part of the consolidated financial statements.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2003
 (UNAUDITED)

1. Organization and Basis of Presentation

America First Real Estate Investment Partners, L.P. (the “Company”) was formed on June 18, 1999, under the Delaware Revised Uniform Limited Partnership Act for the purpose of acquiring, holding, operating, selling and otherwise dealing primarily with multifamily residential properties, including the acquisition of debt and equity securities of entities engaged in similar activities.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2002. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position at September 30, 2003, and the results of operations for all periods presented have been made. Certain amounts from the prior period have been reclassified to conform to the current period presentation. The results of operations for the three and nine month periods ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Restricted Cash

Restricted cash and cash equivalents consist of resident security deposits, required maintenance reserves and escrowed funds.

3. Borrowings Under Repurchase Agreements

The Company has borrowed against certain of its GNMA Certificates using repurchase agreements. The following table shows the terms of the borrowings outstanding at September 30, 2003.

<u>Collateral</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Payment Schedule</u>	<u>Carrying Amount</u>
Monticello GNMA Certificate	1.32%	03/12/2004	interest payments due quarterly, principal due at maturity	5,000,000
The Ponds at Georgetown GNMA Certificate	1.02%	06/26/2004	interest payments due quarterly, principal due at maturity	<u>6,975,000</u>
				<u>\$ 11,975,000</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003
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The GNMA Certificates, backed by first mortgage loans on Monticello Apartments and The Ponds at Georgetown Apartments, are eliminated in the consolidation process of the Company's consolidated financial statements. The GNMA Certificates provide the Company with the guarantee by GNMA as to the full and timely payment of principal and interest on the underlying loans.

4. Transactions with Related Parties

Substantially all of the Company's general and administrative expenses and certain costs capitalized by the Company are paid by the General Partner or an affiliate and reimbursed by the Company.

The Company pays the General Partner an administrative fee in connection with the ongoing administration of the business of the Company in an amount equal to 0.50%, per annum, of the sum of: (i) the fair market value on the date the Company was merged with the previous limited partnerships of the original assets that are still owned by the Company; plus (ii) the purchase price paid by the Company for new assets that are then held by the Company. The first \$100,000 of the administrative fee is payable each year, with the balance payable only during years that funds from operations ("FFO"), as defined in the Agreement of Limited Partnership, calculated before administrative fees, exceeds 7% of the Unit holders' average capital for that year. FFO represents net income (or loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. Such administrative fees are paid on a monthly basis and were \$160,369 and \$491,209 for the three and nine months ended September 30, 2003, respectively. Such administrative fees were \$150,165 and \$434,742 for the three and nine months ended September 30, 2002, respectively.

An affiliate of the General Partner was retained to provide property management services for the multifamily properties owned or financed by the Company. The fees for services provided represent the lower of: (i) costs incurred in providing management of the property; or (ii) customary fees for such services determined on a competitive basis and amounted to \$198,736 and \$581,833 for the three and nine months ended September 30, 2003, respectively. Such fees were \$169,530 and \$486,398 for the three and nine months ended September 30, 2002, respectively.

The Company pays the General Partner an acquisition fee in connection with the identification, evaluation and acquisition of new assets and the financing thereof in an amount equal to 1.25% of the aggregate purchase price paid by the Company for such new assets. The acquisition fee with respect to an acquisition of a new asset is payable at the time of the closing of the acquisition and is capitalized as a cost of the investment in real estate. The General Partner did not receive acquisition fees during the nine months ended September 30, 2003 and received \$338,733 in the nine months ended September 30, 2002 in connection with the acquisition of The Glades Apartments in March of 2002 and the Lakes of Northdale Apartments in September of 2002.

5. Segment Reporting

The Company defines each of its multifamily apartment properties as an individual operating segment, including the properties owned by the Operating Partnerships. It has also determined that all properties have similar economic characteristics and also meet the other criteria which permit the multifamily properties to be aggregated into one reportable segment; that being the acquiring, holding, operating and selling of multifamily apartment properties. The Company's chief operating decision-makers assess and measure segment operating

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results based on a performance measure referred to as net operating income at the individual operating segment. Net operating income for each multifamily apartment property represents its net rental revenues less its real estate operating expenses.

The revenues, net operating income and assets for the Company's reportable segment as of and for the three and nine month periods ending September 30, 2003 and 2002 are summarized as follows:

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003
(UNAUDITED)

	For the Three Months Ended Sept. 30, 2003	For the Three Months Ended Sept. 30, 2002	For the Nine Months Ended Sept. 30, 2003	For the Nine Months Ended Sept. 30, 2002
Multifamily real estate segment revenues	\$ 4,881,919	\$ 4,221,118	\$ 14,552,239	\$ 12,066,268
Reconciling items:				
Mortgage-backed securities income	147,532	329,983	755,149	993,705
Interest and dividend income	109,519	156,749	358,217	336,016
Other income (loss)	3,671	-	2,425	3,289
Equity in gain on sale of real estate in Operating Partnership	6,149,165	-	6,149,165	-
Consolidated revenues	<u>\$ 11,291,806</u>	<u>\$ 4,707,850</u>	<u>\$ 21,817,195</u>	<u>\$ 13,399,278</u>
Consolidated net income	\$ 6,523,478	\$ 471,244	\$ 8,017,710	\$ 1,804,995
Reconciling items:				
Operating and administrative expenses	419,420	362,970	1,271,919	1,172,951
Interest on Notes payable and repurchase agreements	59,262	211,286	271,863	641,559
Interest and dividend income	(109,519)	(156,749)	(358,217)	(336,016)
Mortgage backed securities income	(147,532)	(329,983)	(755,149)	(993,705)
Gain on sale of real estate in Operating Partnership	(6,149,165)	-	(6,149,165)	-
Other (income) loss	(3,671)	-	(2,425)	(3,289)
Net income from multifamily real estate segment	<u>\$ 592,273</u>	<u>\$ 558,768</u>	<u>\$ 2,296,536</u>	<u>\$ 2,286,495</u>
Reconciling items:				
Depreciation	992,323	811,920	2,888,259	2,317,657
Amortization of debt financing costs	40,204	16,521	115,917	86,789
Interest expense on bonds and mortgages payable	609,155	542,304	1,416,532	1,271,888
Net operating income from multifamily real estate segment	<u>\$ 2,233,955</u>	<u>\$ 1,929,513</u>	<u>\$ 6,717,244</u>	<u>\$ 5,962,829</u>
Multifamily real estate segment assets	\$ 112,419,612	\$ 110,751,779	\$ 112,419,612	\$ 110,751,779
Reconciling items:				
Cash and cash equivalents	19,965,810	11,280,350	19,965,810	11,280,350
Investment in corporate equity securities	5,005,079	4,545,799	5,005,079	4,545,799
Investment in GNMA Certificates	175,774	15,174,008	175,774	15,174,008
Other assets	1,374,010	1,110,752	1,374,010	1,110,752
Consolidated assets	<u>\$ 138,940,285</u>	<u>\$ 142,862,688</u>	<u>\$ 138,940,285</u>	<u>\$ 142,862,688</u>

The Company does not derive any of its consolidated revenues from foreign countries and does not have any major customers that individually account for 10% or more of the Company's consolidated revenues.

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003
(UNAUDITED)

6. Sale of Real Estate in Operating Partnership

On August 30, 2003, the Crane's Landing Operating Partnership, in which the Company holds a 99% limited partner interest, sold the Crane's Landing Apartments, a 252 unit property located in Winter Park, Florida. The Company received total cash proceeds of \$16,991,703 in connection with the transaction, which include a realized gain on the sale of \$6,149,165 and proceeds of \$9,858,727, representing full repayment of its GNMA Certificate which was collateralized by Crane's Landing Apartments.

7. Mortgages Payable

In August 2003, the Company financed its Highland Park Apartments with a mortgage payable having a principal balance of \$7,000,000, a maturity of August 1, 2033 and a fixed interest rate of 4.69%.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Item 1 of this report as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

General

The Company was formed on June 18, 1999 under the Delaware Revised Uniform Limited Partnership Act for the purpose of acquiring, holding, operating, selling and otherwise dealing primarily with multifamily residential properties, including the acquisition of debt and equity securities of entities engaged in similar activities.

The Company's business objectives are to: (i) provide increased cash distributions to investors; (ii) provide a potential for an increase in net asset value; and (iii) provide enhanced liquidity and market value of its units. Management's strategy to meet these objectives includes the successful acquisition and management of investments in multifamily residential properties and acquiring securities of other entities engaged in a similar real estate business.

As of September 30, 2003, the Company owned 13 multifamily properties containing a total of 2,536 units. One of the properties, Water's Edge Apartments in Lake Villa, Illinois, had been accounted for as an equity investment in the Operating Partnership that owned the property because the Company did not control the Operating Partnership. On May 1, 2003, the Company acquired the general partner interest of the Operating Partnership and, as a result, the Company's results of operations after that date reflect the results of Water's Edge Apartment's operations on a consolidated basis. The Company had also previously accounted for its interest in Crane's Landing Apartments in Winter Park, Florida as an equity investment. However, the Crane's Landing Operating Partnership sold the property in August 2003. As a result, the Company no longer has an interest in Crane's Landing Apartments, and accounts for all of its properties on a consolidated basis. The sale of the Crane's Landing Apartments property resulted in the Company realizing a gain of \$6,149,165. In connection with the sale, the Company also received proceeds of \$9,858,727, representing full payment of its GNMA Certificate which was collateralized by Crane's Landing Apartments.

The following table sets forth certain information regarding the Company's investment in real estate at September 30, 2003:

AMERICA FIRST REAL ESTATE INVESTMENT PARTNERS, L.P. AND SUBSIDIARIES

<u>Property Name</u>	<u>Location</u>	<u>Number of Units</u>	<u>Number of Units Occupied</u>	<u>Percentage of Units Occupied at Sept. 30, 2003</u>	<u>Economic Occupancy ⁽¹⁾</u>
Bluff Ridge Apartments	Jacksonville, NC	108	108	100%	97%
Brentwood Oaks Apartments	Nashville, TN	262	248	95%	89%
Delta Crossing	Charlotte, NC	178	173	97%	71%
Fox Hollow Apartments	High Point, NC	184	171	93%	82%
Highland Park Apartments	Columbus, OH	252	239	95%	82%
Huntsview Apartments	Greensboro, NC	240	222	93%	81%
Lakes of Northdale	Tampa, FL	216	201	93%	83%
Misty Springs Apartments	Daytona Beach, FL	128	126	88%	90%
Monticello Apartments	Southfield, MI	106	101	95%	88%
The Ponds at Georgetown	Ann Arbor, MI	134	123	92%	82%
The Glades Apartments	Jacksonville, FL	360	333	93%	86%
Waterman's Crossing	Newport News, VA	260	253	97%	97%
Water's Edge Apartments	Lake Villa, IL	108	98	91%	86%
		<u>2,536</u>	<u>2,396</u>	<u>94%</u>	<u>86%</u>

⁽¹⁾ Economic occupancy is presented for the nine months ended September 30, 2003, and is defined as the net rental income for the period divided by the maximum amount of rental income which could be derived from each property if 100% occupied at current lease rental rates. This statistic is reflective of vacancy losses, rental concessions, delinquent rents and non-revenue units such as model units and employee units.

Critical Accounting Policies

The Company's critical accounting policies are the same as those described in the Company's December 31, 2002 Form 10-K.

Results of Operations

The Company's operating results depend primarily on the net operating income generated by its multifamily properties. Net operating income represents rental revenues less real estate operating expenses. Rental revenues are substantially influenced by supply of and demand for apartment units. The multifamily housing industry is experiencing soft market conditions, which are primarily the result of a weak economy and low interest rates which are making home ownership more affordable to prospective and current tenants. In addition, the Company has experienced increases in certain real estate operating expenses. As a result, certain of the Company's properties are experiencing decreases in net operating income. In response to these conditions, management continues to focus on the attraction and retention of quality tenants, and managing the properties in the most cost effective manner.

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

The Company earned rental income of \$4,921,856 during the three months ended September 30, 2003 compared to \$4,237,050 during the same period in 2002. Of this \$684,806 increase, \$589,434 is attributable to the May 2003 acquisition of the general partner and consolidation of Water's Edge Apartments and the September 2002 acquisition of Lakes of Northdale Apartments.

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Equity in the earnings of Operating Partnerships decreased \$24,006 for the three months ended September 30, 2003 compared to the three months ended September 30, 2002. This decrease in equity is due to the decrease in the net income of Crane's Landing Apartments prior to its sale in August of 2003.

Mortgage-backed securities income decreased \$182,451 or 55% for the third quarter of 2003 compared to the second quarter of 2002 as a result of the principal amortization on the underlying securities and the full repayment of the Crane's Landing Apartments GNMA Certificate in August 2003. The GNMA Certificates and the related interest income and interest expense, backed by first mortgage loans on Monticello Apartments, The Ponds at Georgetown, Water's Edge Apartments and Misty Springs Apartments, are eliminated in the consolidation process of the Company's consolidated financial statements. The GNMA Certificates provide the Company with the guarantee by GNMA as to the full and timely payment of principal and interest on the underlying loans

Interest income on cash and cash equivalents decreased \$35,649 for the third quarter of 2003 compared to the same period in 2002 due to a decrease in the average balance of such investments and the decrease in interest rates earned thereon. The average annualized interest rate earned on cash and cash equivalents was 0.92% for the third quarter of 2003, compared to 1.74% for the third quarter of 2002.

Dividend income from the Company's investment in corporate equity securities decreased \$11,581 for the three months ended September 30, 2003 compared to the three months ended September 30, 2002 due to the sale of securities during the third quarter of 2003.

Real estate operating expenses increased \$356,362 during the three months ended September 30, 2003 compared to the same period in 2002. An operating expense increase of \$402,409 is attributable to the May 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments and the September 2002 acquisition of Lakes of Northdale Apartments. This increase is partially offset by decreases in repairs and maintenance expenses.

Depreciation expense increased \$180,403 during the third quarter of 2003 compared to the third quarter of 2002. Of this increase, \$140,017 is attributable to the May 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments and the September 2002 acquisition of Lakes of Northdale Apartments. The remaining increase is attributable to capital improvements put into service during the fourth quarter of 2002 and the first three quarters of 2003.

The Company incurred interest expense of \$668,417 during the three months ended September 30, 2003 as follows: (i) \$609,156 on its bonds and mortgages payable; (ii) \$12,491 on its Notes payable; and (iii) \$46,770 on the Company's repurchase obligations. During the three months ended September 30, 2002, the Company incurred interest expense of \$753,590, consisting of interest expense of: (i) \$542,304 on bonds and mortgages payable; (ii) \$24,537 on its Notes payable; and (iii) \$186,749 on the Company's repurchase agreements. The interest expense increase on the bonds and mortgages payable is due to an increase in bonds and mortgages payable outstanding from: (i) the 2002 acquisition of Lakes of Northdale Apartments; (ii) the 2002 refinancing of Waterman's Crossing Apartments, which resulted in related interest expense that is no longer eliminated in consolidation; and (iii) the August 2003 financing of Highland Park Apartments offset by the decline in variable interest rates. The decrease in the repurchase agreement interest expense is due to a decrease in the outstanding borrowings under repurchase agreements and a decrease in the short term rates paid on these agreements. The decrease in interest expense of the Notes payable is due to a decline in the variable rate on which such interest is calculated.

Amortization of debt financing costs increased \$23,683 for the quarter ended September 30, 2003 compared to the quarter ended September 30, 2002. This is attributable to: (i) the 2003 acquisition of the general partner

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interest and consolidation of Water's Edge and the 2002 acquisition of Lakes of Northdale Apartments; (ii) the 2002 refinancing of Waterman's Crossing Apartments and (iii) the August 2003 financing of Highland Park Apartments.

General and administrative expenses increased \$56,449 or 16% for the third quarter of 2003 compared to the same period in 2002. This increase is primarily attributable to: (i) an increase in administrative fees due to the 2002 acquisition of Lakes of Northdale Apartments; (ii) an increase in salaries and related benefits and; (iii) an increase in insurance expenses.

On August 30, 2003, the Crane's Landing Operating Partnership, in which the Company holds a 99% limited partner interest, sold the Crane's Landing Apartments, a 252 unit property located in Winter Park, Florida. The Company received total cash proceeds of \$16,991,703 in connection with the transaction, which include a realized gain on the sale of \$6,149,165 and proceeds of \$9,858,727, representing full repayment of its GNMA Certificate which was collateralized by Crane's Landing Apartments. No such sale occurred in the comparable period of 2002.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

The Company earned rental income of \$14,587,322 during the nine months ended September 30, 2003 compared to \$12,109,035 during the same period in 2002. Of this \$2,478,287 increase, \$2,266,708 is attributable to: (i) the May 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments; (ii) the March 2002 acquisition of The Glades Apartments and (iii) September 2002 acquisition of Lakes of Northdale Apartments.

Equity in the earnings of Operating Partnerships increased \$7,684 for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This increase in equity is due to the increase in the net income of Crane's Landing Apartments, due to a decline in operating expenses at this property.

Mortgage-backed securities income decreased \$238,556 or 24% for the first nine months of 2003 compared to the first nine months of 2002 as a result of the principal amortization on the underlying securities and the full repayment of the Crane's Landing Apartments GNMA Certificate in August 2003. The GNMA Certificates and the related interest income and interest expense, backed by first mortgage loans on Monticello Apartments, The Ponds at Georgetown, Water's Edge Apartments and Misty Springs Apartments, are eliminated in the consolidation process of the Company's consolidated financial statements. The GNMA Certificates provide the Company with the guarantee by GNMA as to the full and timely payment of principal and interest on the underlying loans.

Interest income on cash and cash equivalents decreased \$55,030 for the first nine months of 2003 compared to the same period in 2002 due to a decrease in the average balance of such investments and the decrease in interest rates earned thereon. The average annualized interest rate earned on cash and cash equivalents was 1.12% for the first three quarters of 2003, compared to 1.82% for the same period in 2002.

Dividend income from the Company's investment in corporate equity securities increased \$77,231 for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 due to additional acquisitions of such investments during the last quarter of 2002 and 2003 year to date.

Real estate operating expenses increased \$1,361,860 during the nine months ended September 30, 2003 compared to the same period in 2002. Of this increase in operating expenses, \$1,316,273 is attributable to the May 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments, the March 2002 acquisition of The Glades Apartments and the September 2002 acquisition of Lakes of Northdale

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Apartments. Real estate operating expenses at the Company's other properties were relatively flat period to period.

Depreciation expense increased \$570,602 during the first nine months of 2003 compared to the first nine months of 2002. Of this increase, \$494,789 is attributable to the 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments and the 2002 acquisitions of The Glades Apartments and Lakes of Northdale Apartments. The remaining increase is attributable to the approximately \$670,000 of capital improvements placed in service during the year 2002 and capital improvements made thus far in 2003.

The Company incurred interest expense of \$2,058,091 during the nine months ended September 30, 2003 as follows: (i) \$1,786,229 on its bonds and mortgages payable; (ii) \$42,289 on its Notes payable; and (iii) \$229,573 on the Company's repurchase obligations. During the nine months ended September 30, 2002, the Company incurred interest expense of \$1,913,447, consisting of interest expense of: (i) \$1,271,888 on bonds and mortgages payable; (ii) \$79,637 on its Notes payable; and (iii) \$561,922 on the Company's repurchase agreements. The interest expense increase on the bonds and mortgages payable is due to an increase in bonds and mortgages payable outstanding from: (i) the 2002 acquisitions of The Glades Apartments and the Lakes of Northdale Apartments; and (ii) the 2002 refinancing of Waterman's Crossing Apartments, which resulted in related interest expense that is no longer eliminated in consolidation, and: (iii) the 2003 financing of Highland Park Apartments offset by a decline in variable interest rates. The decrease in the repurchase agreement interest expense is due to a decrease in the outstanding borrowings under repurchase agreements and a decrease in the average rates paid on these agreements. The decrease in interest expense on the Notes payable is due to a decline in the variable rate at which such interest is calculated.

Amortization of debt financing costs increased \$29,128 for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This is attributable to: (i) the 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments; (ii) the 2002 acquisitions of The Glades Apartments and the Lakes of Northdale Apartments; and (iii) the 2002 refinancing of Waterman's Crossing Apartments.

General and administrative expenses increased \$98,968 or 8% for the first nine months of 2003 compared to the same period in 2002. This increase is primarily attributable to an increase in administrative fees due to the 2002 acquisitions of The Glades Apartments and Lakes of Northdale Apartments. The remaining increase is primarily due to increased salary and insurance expenses.

On August 30, 2003, the Crane's Landing Operating Partnership, in which the Company holds a 99% limited partner interest, sold the Crane's Landing Apartments, a 252 unit property located in Winter Park, Florida. The Company received total cash proceeds of \$16,991,703 in connection with the transaction, which include a realized gain on the sale of \$6,149,165 and proceeds of \$9,858,727, representing full repayment of its GNMA Certificate which was collateralized by Crane's Landing Apartments. No such sale occurred in the comparable period of 2002.

Funds From Operations

The Company's funds from operations ("FFO") increased \$62,184 or 4.6% to \$1,407,949 for the third quarter of 2003, compared to \$1,345,765 for the same period in 2002. This increase is primarily attributable to the 2003 acquisition of the general partner interest and consolidation of Water's Edge Apartments and the 2002 acquisition of the Lakes of Northdale Apartments.

FFO increased \$611,613 or 14.2% to \$4,922,068 for the first three quarters of 2003, compared to \$4,310,455 for the same period in 2002. This increase is attributable to the 2003 acquisition of the general partner interest and

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consolidation of Water's Edge Apartments and the 2002 acquisitions of The Glades Apartments and the Lakes of Northdale Apartments

The Company computes FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("NAREIT") which define FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of properties, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after comparable adjustments for an entity's portion of these items related to unconsolidated entities and joint ventures. The following table sets forth a reconciliation of the Company's net income as determined under GAAP and its FFO for the three and nine month periods ended September 30, 2003 and 2002:

	For the Three Months Ended <u>Sept. 30, 2003</u>	For the Three Months Ended <u>Sept. 30, 2002</u>	For the Nine Months Ended <u>Sept. 30, 2003</u>	For the Nine Months Ended <u>Sept. 30, 2002</u>
Net income	\$ 6,523,475	\$ 471,244	\$ 8,017,710	\$ 1,804,995
Gain on sale of real estate in Operating Partnership	(6,149,165)	-	(6,149,165)	-
Share of Operating Partnership depreciation expense	41,316	62,601	165,264	187,803
Depreciation	<u>992,323</u>	<u>811,920</u>	<u>2,888,259</u>	<u>2,317,657</u>
Funds from operations	<u>\$ 1,407,949</u>	<u>\$ 1,345,765</u>	<u>\$ 4,922,068</u>	<u>\$ 4,310,455</u>

The Company's capitalization policy for its real estate capital improvements has a significant effect on its FFO calculation. Real estate costs that are accounted for as expenses are a deduction in FFO. Alternatively, real estate costs that are capitalized are not an expense that is deducted from FFO, but are depreciated and the related depreciation expense is added to FFO. The Company's capitalization policy is to treat most recurring capital improvements, such as appliances, vinyl flooring and carpet as expenses, and this may cause the Company's reported FFO to be lower than peer companies that capitalize recurring improvements of these types.

The Company considers FFO to be a key measure of its performance and as it adds back the Company's significant non-cash expense of depreciation. Although the Company considers FFO to be a key measure of its operating performance, FFO should not be considered as an alternative to GAAP net income as an indication of the Company's financial performance. In addition, FFO does not represent cash generated from operating activities determined by GAAP and should not be considered as an alternative thereto as a measure of the Company's liquidity or as an indicator of the funds available to the Company to meet its cash needs. The Company's FFO may include funds that are unavailable for discretionary use due to requirements to conserve funds for capital expenditures, property acquisitions and other commitments and uncertainties. FFO reported by the Company may not be comparable to FFO reported by other entities that do not calculate FFO in accordance with the NAREIT definition or which interpret the NAREIT definition differently than the Company.

Liquidity and Capital Resources

The Company's net cash generated by operating activities increased to \$4,762,606 for the nine months ended September 30, 2003 compared to \$3,761,457 for the nine months ended September 30, 2002, primarily due to real estate acquisitions. Net cash provided by investing activities was \$16,356,590 for the nine months ended September 30, 2003 compared to net cash used in investing activities \$10,445,476 for the nine months ended

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September 30, 2002, during which period the Company acquired The Glades Apartments and Lakes of Northdale Apartments. This increase was primarily due to the gain realized by the Company on the sale of Crane's Landing Apartments and the full repayment of the related GNMA Certificate. The Company's net cash used in financing activities was \$6,795,850 for the nine months ended September 30, 2003 compared to net cash provided by financing activities of \$13,233,095 for the nine months ended September 30, 2002. This change was due to repayment of principal on borrowings under repurchase agreements, payment of principal on the Notes payable in 2002, and the proceeds from the financing of Highland Park Apartments which were used to repay short term repurchase agreement obligations.

The amount of operating cash generated by the Company is substantially dependent on the net rental revenues generated by the properties. Net rental revenues from a multifamily apartment complex depend on the rental and occupancy rates of the property and on the level of operating expenses. Occupancy rates and rents are directly affected by the supply of, and demand for, apartments in the market areas in which a property is located. This, in turn, is affected by several factors, such as: local or national economic conditions, the amount of new apartment construction and interest rates on single-family mortgage loans. In addition, factors such as government regulation (such as zoning laws), inflation, real estate and other taxes, labor problems and natural disasters can affect the economic operations of a property.

The Company's recent financial results have benefited from the low interest rate environment and the low interest rates paid on its repurchase agreement borrowings and its variable rate debt. An increase in short term rates will increase interest expense.

The Company believes that cash provided by its real estate investments and investment income from its GNMA's and other investments, supplemented, if necessary, by cash-on-hand, will be adequate to meet its projected short-term and long-term liquidity requirements. The Company's primary uses of cash are: (i) the payment of distributions to Unit holders; (ii) debt service; (iii) payment of operating expenses; and (iv) the acquisition of additional real estate investments.

The following table shows the amount of cash distributions per unit made by the Company for the nine months ended September 30, 2003 and 2002.

	Per Unit	
	Nine Months Ended Sept. 30, 2003	Nine Months Ended Sept. 30, 2002
Regular distributions	\$ <u>0.5250</u>	\$ <u>0.4875</u>

The Company's growth strategy includes the acquisition of additional multifamily residential properties as well as debt and equity securities of entities engaged in similar activities, which will be funded from available cash and short-term investments, and from: (i) borrowing against or sale of the existing properties; (ii) borrowing against or sale of the GNMA Certificates; and (iii) borrowing against the additional properties acquired by the Company. The Company may also use additional sources of financing, both debt and equity, to further its business objectives and investment strategies.

Forward Looking Statements

This report contains forward looking statements that reflect management's current beliefs and estimates of future economic circumstances, industry conditions, the Company's performance and financial results. All

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statements, trend analysis and other information concerning possible or assumed future results of operations of the Company and the real estate investments it has made (including, but not limited to, the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations"), constitute forward looking statements. Unit holders and others should understand that these forward looking statements are subject to numerous risks and uncertainties, and a number of factors could affect the future results of the Company and could cause those results to differ materially from those expressed in the forward looking statements contained herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure is interest rate risk. The Company's exposure to market risk for changes in interest rates relates primarily to its long and short-term borrowings used to fund expansion of the Company's real estate portfolio and its variable rate Notes payable.

Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and lower its overall borrowing costs. To achieve its objectives, the Company borrows primarily at fixed rates and may enter into derivative financial instruments, such as interest rate caps, in order to mitigate its interest rate risk. The Company does not enter into derivative instrument transactions for speculative purposes.

The Company has entered into various long-term financing arrangements for the acquisition of apartment complexes. At September 30, 2003, approximately 49% of the Company's long-term borrowings consisted of fixed-rate financing. The remaining 51% consisted of variable-rate financing. Variations in interest rates affect the Company's cost of borrowing on its variable-rate financing. The interest rates payable by the Company on these obligations increase or decrease with certain index interest rates. If the Company's borrowing costs increase, the amount of cash available for the payment of Company expenses and for distribution to Unit holders will decrease.

The following tables provide information at September 30, 2003 regarding the Company's long-term borrowings sensitive to interest rate risk:

Fixed-Rate Borrowings			Variable-Rate Borrowings		
	Principal	Weighted Average Interest Rate		Principal	Weighted Average Interest Rate
Maturity	Amount	Interest Rate	Maturity	Amount	Interest Rate ⁽¹⁾
2003	\$ 105,990	5.67%	2003	\$ -	-
2004	422,667	5.67%	2004	-	-
2005	448,697	5.67%	2005	-	-
2006	475,064	5.67%	2006	-	-
2007	509,693	5.67%	2007	-	-
Thereafter	<u>29,624,020</u>	5.67%	Thereafter	<u>32,785,085</u>	2.05%
	<u>\$ 31,586,131</u>			<u>\$ 32,785,085</u>	

⁽¹⁾ For the nine months ended September 30, 2003.

The Company also has \$11,975,000 in short term repurchase agreement obligations due in 2004, which have a weighted average interest rate of 1.15%. While borrowings under these repurchase agreements bear interest at fixed rates, these repurchase agreements have terms expiring in March and June 2004, at which time the

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Company may enter into new repurchase agreements at the current interest rates. Accordingly, these repurchase agreements have short-term rates with exposes the Company to interest rate risk.

As the above tables incorporate only those positions or exposures that existed as of September 30, 2003, it does not consider those exposures or positions that could arise after that date. The Company's ultimate economic impact with respect to interest rate fluctuations will depend on the exposures that arise during the period, and the Company's risk mitigating strategies at that time.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Principal Executive Officer and Principal Financial Officer of America First have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) as of the end of the period covered by this quarterly report. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer of America First have concluded that the Company's current disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) Changes in internal controls. There were no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to affect, the Company's internal controls over financial reporting.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed as required by this report. Exhibit numbers refer to the paragraph numbers under Item 601 of Regulation S-K:

2(a) Agreement and Plan of Merger among the Company and Cap Source and Cap Source II (incorporated by reference to Appendix A to the Prospectus included in Registration Statement of Form S-4 (No. 333-52117) filed by the Company on November 8, 1999).

4(a) Certificate of Limited Partnership of the Company (incorporated by reference to Exhibit 3.01 to Registration Statement on Form S-4 (No. 333-52117) filed by the Company on July 21, 1999).

4(b) Amended and Restated Agreement of Limited Partnership of the Company (incorporated by reference to Exhibit 3.02 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on July 21, 1999).

4(c) Form of Indenture between the Company and U.S. Bank Trust National Association, as trustee (incorporated by reference to Exhibit 4.02 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on May 7, 1998).

4(d) Form of Unit Certificate of the Company (incorporated by reference to Exhibit 4.03 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on September 28, 1999).

4(e) Form of Variable Rate Junior Notes are included in Exhibit 4.02 (incorporated by reference to Exhibit 4.04 to the Registration Statement on Form S-4 (No. 333-52117) filed by the Company on May 7, 1998).

10(a) Stipulation of Settlement.

IN THE CASE OF

ALVIN M. PANZER and

SANDRA G. PANZER Plaintiffs,

INSURED MORTGAGE EQUITIES, INC., INSURED MORTGAGE

EQUITIES II L.P., AMERICA FIRST CAPITAL

SOURCE I, L.L.C., AMERICA FIRST

CAPITAL SOURCE II, L.L.C., AMERICA

FIRST COMPANIES, L.L.C., AMERICA

FIRST REAL ESTATE INVESTMENT

PARTNERS, L.P., LEHMAN

BROTHERS, INC., CAPITAL SOURCE

L.P., PAUL L. ABBOTT, and CAPITAL

SOURCE II, L.P.,

Defendants.

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(incorporated herein by reference to Form 10-Q dated March 31, 2000 filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 by the Company (Commission File No. 333-52117)).

- 31 (a) Certification of CEO pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31 (b) Certification of CFO pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 32 (a) Certification of CEO pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32 (b) Certification of CFO pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

(b) Reports on Form 8-K

The Company did not file a report on Form 8-K during the quarter for which this report is filed.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By America First Real Estate
Investment Partners, L.P.

By America First Capital
Source I, L.L.C., General
Partner of the Company

/s/ Lisa Y. Roskens
Lisa Y. Roskens,
Chief Executive Officer

Date: November 7, 2003